Doncaster Council

**Date: 12th February 2019**

**To the Chair and Members of the CABINET**

**THE TREASURY MANAGEMENT STRATEGY STATEMENT 2019/20 – 2022/23**

| Relevant Cabinet Member(s) | Wards Affected | Key Decision |
|---|---|---|
| Mayor Ros Jones | All | Yes |

## EXECUTIVE SUMMARY

1. This report details the strategy for management of the council finances and provides a framework for the operation of the treasury management function within the Council. Treasury management makes sure that sufficient cash is available to meet service delivery in line with the approved Capital and Revenue Budgets. Key prudential indicators relating to borrowing limits are contained in the body of the report, with the prudential indicators relating to affordability in **Appendix A**. The key messages are:

    a. Borrowing – total borrowing requirement will increase during the period covered by this report but the Council will remain under-borrowed against its total borrowing requirement to avoid the higher cost of carrying debt (Capital Financing Requirement 2019/20 £596m). As borrowing rates are forecast to only rise gently over the next 3 years, the primary borrowing strategy for new and replacement debt will be to take cheaper short term loans to maximise interest savings over the period of the report. The Council will also repay £24.5m of maturing debt to generate further external interest savings. The borrowing strategy is detailed in **paragraphs 15 – 62**.

    b. Investments – securing the return of investment funds remains paramount when selecting counterparties and the strategy reflects this. The Investment Strategy will continue to manage the balances available and support cash flow requirements. The Investment Strategy is a low risk policy with minimal returns in value; this protects the Council from losses caused by financial institutions failing to repay investments when due. This policy allows the Council to spread the risk amongst a number of approved lenders, and financial instruments as outlined in **paragraphs 63 – 100.**

2. The Council has to approve the local policy for approach to debt repayment (Minimum Revenue Provision – MRP) which is detailed in **Appendix B**.

## EXEMPT REPORT

3. Not applicable.

## RECOMMENDATIONS

4. Cabinet is asked to recommend to Council, the Treasury Management Strategy Statement 2019/20 – 2022/23 report and the Prudential Indicators included.
5. Cabinet is asked to recommend to Council the Minimum Revenue Provision (MRP) policy as set out in **paragraphs 27 - 28** (details in **Appendix B**).
6. Cabinet is asked to note the Treasury Management Annual review report for 2017/18, at **Appendix F.**

## WHAT DOES THIS MEAN FOR THE CITIZENS OF DONCASTER?

7. This Strategy ensures that the Council's Capital Programme borrowing requirement is affordable and takes advantage of low short term interest rates to deliver savings for the Council. By ensuring that the treasury management function is effective we can ensure that the right resources are available at the right time to enable the delivery of services.

## BACKGROUND

8. Chartered Institute of Public Finance and Accounting (CIPFA) defines treasury management as: "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks". For the Council to produce a strategy which is compliant with the statutory guidelines, a number of acts and guidance have to be taken into account.
9. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management function is to ensure that this cash flow is planned, with cash being available when it is needed. Surplus monies are invested in low risk financial institutions and instruments in line with the Council's low risk appetite, providing liquidity before considering investment return.
10. The second main function of treasury management is the funding of the Council's Capital Programme. The Capital Programme provides a guide to the borrowing need of the Council and the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.
11. The Treasury Management strategy for 2019/20 – 2022/23 covers two main areas:

    **Capital Issues**

    a) the Capital Programme and the associated prudential indicators;
    b) the Minimum Revenue Provision (MRP) policy.

    **Treasury Management Issues**

    a) the current treasury position;
    b) treasury indicators which limit treasury risk and activities of the Council;
    c) prospects for interest rates;
    d) the borrowing strategy;
    e) policy on borrowing in advance of need;
    f) debt rescheduling;
    g) the investment strategy;
    h) creditworthiness policy; and
    i) policy on use of external service providers.

12. These elements cover the requirements of the Local Government Act 2003, CIPFA Prudential Code, government MRP guidance, the CIPFA Treasury Management Code and the government Investment Guidance.

**The Capital Programme Prudential Indicators 2019/20 – 2022/23**

13. The Council's Capital Programme is the key driver of treasury management activity. The Prudential Indicators are designed to assist members' overview and confirm capital expenditure plans.

**Capital Expenditure**

14. The first prudential indicator is a summary of the Council's Capital Programme expenditure plans and funding. It includes existing expenditure commitments, and those included in the 2019/20 – 2022/23 budget cycle.

| | **Actual** | **Estimates** | | | | |
|---|---|---|---|---|---|---|
| | **2017/18 £k** | **2018/19 £k** | **2019/20 £k** | **2020/21 £k** | **2021/22 £k** | **2022/23 £k** |
| **Capital Expenditure** | | | | | | |
| General Fund (GF) | **71,326** | **71,516** | **110,261** | **61,755** | **28,279** | **19,362** |
| HRA | **30,400** | **37,628** | **27,080** | **27,816** | **27,798** | **27,490** |
| **Total** | **101,726** | **109,144** | **137,341** | **89,571** | **56,077** | **46,852** |
| **Financing of Capital Expenditure** | | | | | | |
| Capital Receipts | 10,520 | 13,969 | 27,176 | 17,486 | 6,026 | 4,590 |
| Capital Receipts Shortfall * | 0 | -5,215 | 5,215 | 0 | 0 | 0 |
| Capital Grants | 38,235 | 36,857 | 45,914 | 28,429 | 9,725 | 2,244 |
| Capital Reserves | 596 | 678 | 1 | 0 | 0 | 0 |
| Revenue | 26,782 | 32,836 | 27,659 | 27,916 | 27,798 | 27,490 |
| **Sub Total** | **76,133** | **79,125** | **105,965** | **73,831** | **43,549** | **34,324** |
| **Net Financing Need** | **25,593** | **30,019** | **31,376** | **15,740** | **12,528** | **12,528** |

*****Some Capital schemes are financed by capital receipts. The timing of the receipts varies and may result in some expenditure showing as unfinanced at the year-end until the receipts are generated. The forecast figures above reflect the in-year movement including the estimated £5.2m shortfall in capital receipts for 2018/19.

**Borrowing**

**The Council's Total Capital Financing Requirement (CFR)**

15. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is total historic outstanding capital expenditure which has not been fully funded. It is a measure of the Council's underlying borrowing need.

16. The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes. As at 31/03/18, the Council had £48.1m of such schemes.

17. The CFR does not increase indefinitely, as minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

| | Actual | Estimates | | | | |
|---|---|---|---|---|---|---|
| | 2017/18 £k | 2018/19 £k | 2019/20 £k | 2020/21 £k | 2021/22 £k | 2022/23 £k |
| **Capital Financing Requirement** | | | | | | |
| GF | 284,236 | 305,451 | 328,953 | 336,988 | 341,891 | 346,872 |
| HRA | 266,025 | 267,069 | 267,069 | 267,069 | 267,069 | 267,069 |
| Total CFR | **550,261** | **572,520** | **596,022** | **604,057** | **608,960** | **613,941** |
| Movement in CFR | **21,558** | **22,259** | **23,503** | **8,035** | **4,903** | **4,981** |
| **Represented by** | | | | | | |
| Net Financing Need (table above) | 25,593 | 30,019 | 31,376 | 15,740 | 12,528 | 12,528 |
| Less MRP/Other financing adjustment | **-4,035** | **-7,760** | **-7,873** | **-7,705** | **-7,625** | **-7,547** |
| Movement in CFR | **21,558** | **22,259** | **23,503** | **8,035** | **4,903** | **4,981** |

18. The Council is forecast to have borrowed £526.1m as at 31/03/19 against a CFR (borrowing requirement) of £572.5m which means that the Council is currently forecast to be under-borrowed (see paragraphs 20 to 22) by £46.4m. This minimises external interest costs, but may not be sustainable long term.

19. In 2017/18 the Council borrowed £56.5m to prepay its pension deficit obligations and 80% of the future service rate (FSR) for the following 3 years, which saved the Council £0.6m after borrowing costs. Whilst the borrowing for the pension prepayment is not for capital purposes and therefore does not feed into the Capital Financing Requirement as no asset is purchased, it will temporarily reduce the under-borrowed position for reporting purposes, for the three years during which the loans are outstanding.

**Under- Borrowing**

20. As detailed above, the Council is currently maintaining an under-borrowed position. This means that the level of actual debt is below the Capital Financing Requirement (the amount the authority needs to borrow for capital purposes) and therefore the Council has to use internal resources such as earmarked reserves, unapplied grants and capital receipts, cash balances, etc. to fund some of its unfinanced capital expenditure.

21. This strategy is beneficial because external debt interest payments are minimised and funds available for investments are reduced at a time when investment returns remain low.

22. This position cannot be sustained in the long term. The reserves and balances may be needed and as a consequence the need to borrow will increase. This could be short-term or long-term borrowing. The Council have used short-term borrowing opportunities from other authorities as they have restricted lending lists which means they lend at rates much lower than PWLB rates.

**Short-Term Borrowing**

23. The use of short-term borrowing can make the borrowing portfolio volatile in terms of interest rate and refinancing risk. The benefit to the Council is low interest costs which has enabled the treasury management function to generate savings, which have been re-prioritised to service delivery. The risk inherent to using this approach has to be balanced against the need to find savings and produce a balanced budget.

24. There is a risk associated with a short-term borrowing strategy. As interest rates are likely to rise in future years, long-term borrowing will be more expensive than

it is currently. By deferring long term borrowing until later years it is likely that additional costs will be incurred. We are balancing long term stable interest costs against short term interest savings.

25. The under-borrowing position remains lower than previous years due to the Council borrowing £56.5m to prepay its pension liabilities for 2017/18 to 2019/20 (see paragraph 19). This position will change by approx. £20m per year when the borrowing is repaid and under-borrowing position increases by the same amount.

26. Unless new resources are identified e.g. grants, asset sales, etc. funding the Capital Programme from balances will decrease investment balances and hence reduce investment income levels, but the loss, is currently, more than offset by the interest savings generated by not taking on the full borrowing requirement.

**The Minimum Revenue Provision (MRP)**

27. The Council is required by statute to charge MRP to the General Fund Revenue Account each year for the repayment of debt. The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by council tax payers.

28. The Council's MRP policy is detailed at **Appendix B**. The selected methods are those which are most beneficial in each case and comply with Ministry of Housing, Communities & Local Government (MHCLG) regulations.

**Core funds and expected investment balances**

29. The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed over are estimates of the year end balances for each resource and anticipated day to day cash flow balances. It should be noted that the use of resources is difficult to predict and a cautious approach is taken.

| **Year End Resources** | **Actual** | **Estimates** | | | | |
|---|---|---|---|---|---|---|
| | **2017/18 £k** | **2018/19 £k** | **2019/20 £k** | **2020/21 £k** | **2021/22 £k** | **2022/23 £k** |
| Reserves balances | 75,933 | 44,504 | 32,940 | 30,025 | 29,989 | 29,953 |
| Capital receipts GF | 10,520 | 8,754 | 32,391 | 17,486 | 6,026 | 4,590 |
| Provisions | 15,498 | 14,544 | 14,544 | 14,544 | 14,544 | 14,544 |
| Capital Grants Unapplied | 11,676 | 5,904 | 5,904 | 5,904 | 5,904 | 5,904 |
| **Total core funds** | **113,627** | **73,706** | **85,779** | **67,959** | **56,463** | **54,991** |
| Working capital | 24,943 | 24,943 | 24,943 | 24,943 | 24,943 | 24,943 |
| Under/over borrowing | 21,352 | 46,382 | 58,733 | 74,828 | 66,935 | 59,120 |
| **Expected investments** | **40,000** | **56,000** | ***31,500** | **31,500** | **31,500** | **31,500** |

*Estimated impact of repaying £24.5m of maturing loans, to minimise external interest costs, using investment funds.

**Current Portfolio Position**

30. There are a number of key prudential indicators to ensure that the Council operates within well-defined limits. One of these is that the Council needs to ensure that its total borrowing does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR). This helps to ensure that over the medium term borrowing is not undertaken for revenue purposes.

31. The Chief Financial Officer & Assistant Director of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report. As previously stated the Council's external borrowing at 31 March 2019 is expected to be £526.1m. Split across two pools as below. The borrowing need (total CFR) is £572.5m which highlights that the Council will be under-borrowed by £46.4m (see paragraphs 20 to 22 above).

32. Following changes to the MHCLG guidance the council needs to report debt relating to commercial activities/non-financial investments separately. The council confirms that we do not currently have any debt relating to commercial activities/non-financial investments and there are no plans for this to change during the term of this report.

| **Portfolio Position** | **Actual** | **Estimates** | | | | |
|---|---|---|---|---|---|---|
| | **2017/18 £k** | **2018/19 £k** | **2019/20 £k** | **2020/21 £k** | **2021/22 £k** | **2022/23 £k** |
| **CFR General Fund** | **284,236** | **305,451** | **328,953** | **336,988** | **341,891** | **346,872** |
| External Borrowing | 285,686 | 281,871 | 271,227 | 263,166 | 275,962 | 288,758 |
| Under-borrowed Position | -1,451 | 23,580 | 57,727 | 73,822 | 65,929 | 58,114 |
| Ave. Interest Rate | 2.89% | 2.95% | 2.70% | 3.16% | 3.12% | 3.03% |
| **CFR HRA** | **266,025** | **267,069** | **267,069** | **267,069** | **267,069** | **267,069** |
| External Borrowing | 243,223 | 244,267 | 266,063 | 266,063 | 266,063 | 266,063 |
| Under-borrowed Position * | 22,802 | 22,802 | 1,006 | 1,006 | 1,006 | 1,006 |
| Average Interest Rate | 4.89% | 4.84% | 4.70% | 4.68% | 4.61% | 4.60% |
| **Total CFR** | **550,261** | **572,520** | **596,022** | **604,057** | **608,960** | **613,941** |
| **Total External debt** | **528,909** | **526,138** | **537,289** | **529,229** | **542,025** | **554,821** |
| **Total Under-borrowing** | **21,352** | **46,382** | **58,733** | **74,828** | **66,935** | **59,120** |

*As there is no requirement to apply MRP to HRA borrowing, its under-borrowed position would only change as a result of a strategic change in the Councils borrowing pool makeup or external borrowing position, e.g. increase/decrease in external debt.

33. Both debt pools have relatively low interest rates which are expected to stay flat between 2019/20 and 2022/23. The average rate on GF increases slightly as the short term pension prepayment loans, which have an average interest rate of sub 1%, are repaid. The average interest rate on HRA debt is higher than the GF debt as the pool contains a higher proportion of older, or longer term, debt taken out at higher interest rates.

34. Treasury management decisions on the structure and timing of borrowing will be made independently for the GF and HRA. Interest on loans will be calculated in accordance with proper accounting practices. This will require interest

expenditure on external borrowing attributed to HRA loans being allocated to the HRA. Interest expenditure on external borrowing attributed to the GF will be allocated to the GF.

**Treasury Indicators: Limits to Borrowing Activity**

35. These are the 2 overall controls for treasury management external borrowing:
    - The 'operational boundary' for external borrowing; and
    - The 'authorised limit' for external borrowing.

**Operational Boundary for external borrowing**

36. This is the normally expected limit for external borrowing. For 2019/20 the limit is **£600.6m**. In most cases, this would be a similar figure to the Capital Financing Requirement (CFR). However, Doncaster Council's operational boundary adds our 'other long term liabilities' (which is Metropolitan Debt transferred from South Yorkshire County Council).

| Operational Boundary | Actual | Estimates | | | | |
|---|---|---|---|---|---|---|
| | 2017/18 £k | 2018/19 £k | 2019/20 £k | 2020/21 £k | 2021/22 £k | 2022/23 £k |
| CFR/Borrowing | 550,261 | 572,520 | 596,022 | 604,057 | 608,960 | 613,941 |
| Other long-term liabilities Met. Debt | 7,513 | 6,513 | 4,545 | 2,381 | 0 | 0 |
| Total | **557,774** | **579,033** | **600,568** | **606,438** | **608,960** | **613,941** |

**The Authorised Limit for external borrowing**

37. A further key prudential indicator is a control on the maximum level of borrowing. This represents a legal limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council.

38. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

39. This allows the Council to borrow in advance (up to 3 years) of need for future planned expenditure – relating solely to unfinanced capital expenditure in any future 3 year period. Doncaster Council do not borrow in advance and this would only be considered where interest rates were preferential and to avoid future interest rate risk. For 2019/20 the limit is **£641.4m**.

| Authorised limit | Actual | Estimates | | | | |
|---|---|---|---|---|---|---|
| | 2017/18 £k | 2018/19 £k | 2019/20 £k | 2020/21 £k | 2021/22 £k | 2022/23 £k |
| Borrowing | 550,261 | 572,520 | 596,022 | 604,057 | 608,960 | 613,941 |
| Other long-term liabilities – 'Met. Debt' | 7,513 | 6,513 | 4,545 | 2,381 | 0 | 0 |
| Theoretical amount * | 0 | 59,644 | 40,796 | 24,739 | 12,211 | -317 |
| Total | **557,774** | **638,677** | **641,364** | **631,177** | **621,171** | **613,624** |

* This figure includes an allocation for the Improvement and Modernisation Fund, which will only be taken as and when individual schemes receive separate approval.

40. Previously, the Council used to be limited to a maximum HRA Capital Financing Requirement (CFR) through the self-financing regime. This was called the HRA debt limit which was abolished during 2018/19.

**Treasury Management Limits on activity**

41. There are three debt related treasury activity limits, see **Appendix A**, The purpose of these are to keep the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance.

**Prospects for Interest Rates**

42. Link Asset Services Treasury Solutions, are the Councils treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. **Appendix D** draws together a number of current City forecasts for short term (Bank Rate) and longer term fixed interest rates.

43. Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts and Monetary Policy Committee (MPC) decisions will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit. There are a number of downside risks to current forecasts for UK gilt yields and PWLB rates e.g. an increase in the Bank Rate causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

44. There is also the potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates e.g. the bank rate raises too slowly and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

45. Our target borrowing rate for 2019/20 is 1.5%. Whilst our borrowing rates have taken account of all known factors including the advice of our treasury management advisors it is possible that rates could change unexpectedly. A significant rise in short term interest rates could expose the Council to additional interest costs. A 1% increase in interest on loans due to be taken within the next 12 months would cost the General Fund an additional £343k in 2019/20 rising to £658k per annum (full year effect).

**Borrowing Strategy**

46. Effective treasury management makes sure that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet the Council's service activity in line with the Capital Programme. This will involve both the organisation of the cash flow and, where capital plans require, the arrangement of borrowing facilities. Total borrowing at the beginning of 2019/20 is forecast to be £526.1m. During 2019/20 the council estimates that it will borrow an additional £23.5m for the Capital Programme and replace £43m of the £67.5m GF and HRA loans expiring during the year. The Council also has £39m of loans, which potentially, we could be asked to repay during the financial year. However, based on the current and forecast levels of interest rates this risk is considered very low and replacement of the loans has not been included within this strategy. The Council's current Loans and Investment portfolios are shown in **Appendix C**.

47. The borrowing strategy is a continuation of the recent successful strategy that has generated large interest savings. The savings are generated in two ways, being under-borrowed (see paragraphs 20 to 22) and borrowing short term (see paragraphs 23 to 26). As interest rates are forecast to increase gently over the term of this strategy we propose to continue to borrow short term rather than lock into the historically low long term interest rates. Where the Section 151 Officer considers it is prudent to do so borrowing may be taken over a longer period.

48. The savings, which are very sensitive to a movement in interest rates, assume that the under-borrowing will continue. There remains risks associated with the under-borrowing, but these will probably be eroded over time through the application of MRP.

49. The strategy delays some borrowing as long as possible to generate interest saving. For example at today's interest rates, if we were to borrow the £46.4m (forecast under-borrowed amount as at 31st March 2019) from the Public Works Loan Board (PWLB) over 5 years interest would cost £0.803m per annum and over 25 years to 50 years it would cost £1.16m per annum.

50. It is normally prudent to borrow long term to support the Capital Programme; however, we have had unusual market conditions that we have used to generate short term savings. Those market conditions are forecast to continue to normalise gradually during the strategy term, however, the new normal is forecast to be much lower borrowing rates than in previous economic cycles. Also, 48% of the Councils borrowings are for terms between 30 and 50 years, which brings certainty of cost and minimises interest rate risk on almost half the portfolio.

51. It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the PWLB. This Authority may make use of this new source of borrowing as and when appropriate. We will also consider any other sources of borrowing, which shows better value for money compared to the PWLB.

**Risk Strategy**

52. The strategies of internal and short-term borrowing generate immediate savings but are not sustainable in the long term given the level of interest rate risk within the portfolio. Three distinct risks have been identified:
    a) The increased use of reserves and provisions reduces the funds currently financing the under-borrowing. To mitigate this risk the Council will monitor its use of resources and if necessary undertake additional external borrowing, within approved limits.
    b) Short-term interest rates increase making the short-term borrowing strategy more expensive than a long-term alternative.
    c) There is an on-going risk that long-term interest rates rise significantly so that the switch from short-term borrowing becomes very costly.

53. Against this background and the risks within the economic forecast, caution will continue to be adopted with the 2019/20 treasury operations. The Chief Financial Officer & Assistant Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:
    - if it was felt that there was a significant risk of a sharp fall in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
    - if it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a

greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that long term fixed rate funding will be drawn whilst interest rates were still relatively cheap. We have already seen an increase in inflation in line with Bank of England forecasts due to the fall in sterling post Brexit. However, over 2 years on, this impact has started to reverse and inflation has started to fall. The current levels do not yet justify a sharper than forecast increase in interest rates.

**Transfer of Loans between Debt Pools**

54. The Council's policy on transferring loans between the HRA and GF debt pools is as follows:
    - In the case of the HRA/General Fund having a requirement to fund its Capital Financing Requirement (CFR), then one debt pool may be used to subsidise another to reduce either the GF or the HRA external borrowing requirement.
    - If this happens, then loans will be transferred between the pools without the need to recognise an internal premium or discount.
    - Similarly, if the HRA and General Fund wish to swap loans as a result of strategic decisions, this loan swap would also be undertaken at no internal premium or discount.

55. Where the HRA or General Fund has surplus cash balances which allow either account to fund internal, the rate charged on this internal borrowing will be based on the average external rate of interest on the applicable pool at the end of the financial year. This is a reasonable approach providing certainty of charging, protection against short term increases in market rates and reflects the fact that strategic borrowing decisions will generally be made on an annual basis.

56. It is proposed to transfer £21.8m of existing external loans from the General Fund Pool to the HRA Pool. The transfer also means that the HRA will be virtually fully borrowed and General Fund will carry all the under borrowing risk. As a consequence, the ongoing external interest cost for the General Fund will reduce by £0.65m.

**Policy on Borrowing in Advance of Need**

57. The Council will not borrow more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. At present Doncaster Council do not borrow in advance.

58. Borrowing in advance will be made within the constraints that:
    - It will be limited to no more than 100% of the expected increase in borrowing need (Capital Financing Requirement) over a three year planning period; and
    - Would not look to borrow more than 36 months in advance of need.

59. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

**Debt Rescheduling**

60. As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

61. Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt. During 2019/20 we are planning to repay maturing debt with £24.5m of the investment funds.

62. All rescheduling activity will be reported in the next Finance & Performance Improvement Report to Cabinet.

**Annual Investment Strategy**

**Investment Policy**

63. The Council's investment policy has regard to the Government MHCLG's Guidance on Local Government Investments ("the Guidance"), the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA Code") and the CIPFA Treasury Management Guidance Notes 2018. The Council's investment priorities will be security first, portfolio liquidity second, then return.

64. In order to minimise the risk to investments, the Council has stipulated the minimum acceptable credit quality of financial institutions for inclusion on its lending list. The methodology used to create the lending list takes account of the ratings and watches published by all three ratings agencies, Fitch, Moody's and Standard & Poors, with a full understanding of what the ratings reflect in the eyes of each agency. Using the Link Asset Services Treasury Solutions, ratings service, banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

65. The aim of the policy is to generate a list of highly creditworthy financial institutions/products which will also enable diversification and thus avoidance of concentration risk.

66. The primary intention of the policy is to provide security of investment and minimisation of risk.

67. Where the HRA or GF has surplus cash balances invested the interest shall be credited based on the relative proportions of the balances. Where an investment is impaired the charge shall also be shared based on the relative proportions of the balances.

68. Long Term Credit Rating Equivalents and Definitions:-

| Fitch | Moody's | Standard and Poor's |
|---|---|---|
| **AAA**<br>Highest credit quality. "AAA" ratings denote the lowest expectation of credit risk. They are assigned only in the case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events. | **Aaa**<br>Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk. | **AAA**<br>An obligator rated "AAA" has extremely strong capacity to meet its financial commitments. "AAA" is the highest issuer credit rating assigned by S&P. |

| | | |
|---|---|---|
| **AA (+/-)**<br>Very high credit quality. “AA” ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. | **Aa (1/2/3)**<br>Obligations rated Aa are judged to be of high quality and are subject to very low credit risk. | **AA (+/-)**<br>An obligator rated “AA” has very strong capacity to meet its financial commitments. It differs from the highest rated obligators only by a small degree. |
| **A (+/-)**<br>High credit quality. “A” ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings. | **A (1/2/3)**<br>Obligations rated A are considered upper-medium grade and are subject to low credit risk. | **A (+/-)**<br>An obligator rated “A” has strong capacity to meet its financial commitments but is more susceptible to the adverse effects of changes in circumstances and economic conditions than obligators in higher rated categories. |
| There are 1 investment grade and 18 sub investment grade ratings below this level but this Council will not deal in financial instruments rated below the above levels, or equivalent. | | |

69. Further, the Council’s officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial markets in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets.

70. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investments.

71. As a result of the change in accounting standards for 2018/19 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.)

72. Investment instruments identified for use within the financial year are listed in **Appendix E** under the “Specified” and “Non-specified” investment categories.

73. The MHCLG Guidance defines Specified Investments as those:
    - Denominated in sterling
    - Due to be repaid within 12 months of the arrangement
    - Not defined as Capital Expenditure by legislation and invested with one of:-
        I. The UK Government
        II. A UK local authority, parish council, or community council, or
        III. A body or investment scheme of “high credit quality”

74. Non-Specified Investments are any that do not meet the above criteria.

75. The above criteria is unchanged from last year.

**Credit Risk Policy**

76. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating equal to the UK's sovereign rating (minimum rating as confirmed by at least two agencies). The list of countries that qualify using this credit criteria as at the date of this report are shown in **Appendix E.** This list will be amended by officers should ratings change in accordance with this policy. Any changes will be approved by the Councils Section 151 Officer, or Deputy. Not all counterparties will be active in the market at all times, therefore it is important to have a good spread of available organisations.

77. The Council applies the credit risk assessment service provided by Link Asset Services Treasury Solutions.

78. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies. The credit ratings of financial institutions are supplemented with the following overlays:
    - credit watches and credit outlooks from credit rating agencies;
    - Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings;

79. Sovereign ratings to select financial institutions from only the most creditworthy countries.

80. The model is a series of bands which indicate the relative creditworthiness of financial institutions. This is used by the Council to determine the duration of investments. The model will also be used to select institutions with a high level of creditworthiness, based on the following bands. The Council will therefore use financial institutions within the following durational bands.

| Y | Pi1 | Pi2 | P | B | O | R | G | N/C |
|---|---|---|---|---|---|---|---|---|
| 1 | 1.25 | 1.5 | 2 | 3 | 4 | 5 | 6 | 7 |
| Up to 5yrs | Up to 5yrs | Up to 5yrs | Up to 2yrs | Up to 1yr | Up to 1yr | Up to 6mths | Up to 100days | No Colour |

| **Colour** | **Maximum Term** |
|---|---|
| Yellow | 5 Years |
| Dark pink | 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25 |
| Light Pink | 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5 |
| Purple | 2 Years |
| Blue | 1 year (applies to nationalised or semi nationalised UK Banks) |
| Orange | 1 Year |
| Red | 6 Months |
| Green | 100 Days |
| No Colour | Not to be used |

| | Colour (and long term rating where applicable) | Money and/or % Limit | Time Limit |
|---|---|---|---|
| Banks | Yellow | £50m | 5 years |
| Banks | Purple | £40m | 2 years |
| Banks | Orange | £30m | 1 year |
| Banks – part nationalised | Blue | £30m | 1 year |
| Banks | Red | £20m | 6 months |
| Banks | Green | £10m | 100 days |

| | Colour (and long term rating where applicable) | Money and/or % Limit | Time Limit |
|---|---|---|---|
| Banks | No colour | Not to be used | |
| Council's banker (Lloyds Bank) | One colour band upgrade | As per relevant band | As per relevant band |
| Other institutions limit | - | £20m | 1 year |
| DMADF | UK sovereign rating | unlimited | 6 months |
| Local authorities | n/a | £30m | 5 years |
| | Fund rating | Money and/or % Limit | Time Limit |
| Money market funds (CNAV/LVNAV or VNAV) | AAAmmf | £20m per category | liquid |
| Ultra –Short dated Bonds Funds with a credit score of 1.25 | Dark pink / AAA | £10m | liquid |
| Ultra –Short dated Bonds Funds with a credit score of 1.5 | Light pink / AAA | £10m | liquid |

81. This methodology is even more cautious than the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy financial institutions. The Link Asset Services Treasury Solutions, creditworthiness service uses a wider array of information in addition to the primary ratings and by using a risk weighted scoring system, does not give undue weighting to one agency's ratings.

82. Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of F1 and a long term rating of A-. There may be occasions when another rating agency's counterparty ratings may be used that are marginally lower than Fitch's counterparty ratings, but in such instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

83. All credit ratings are monitored daily and changes to ratings are notified to us by Link Asset Services Treasury Solutions, creditworthiness service.

84. If a downgrade results in the financial institution/ investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

85. In addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

**UK banks – ring fencing**

86. The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), were required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks

are very close to the threshold already and so may come into scope in the future regardless.

87. Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

88. While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

**Investment Strategy**

89. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

90. Bank Rate is forecast to stay flat at 0.75% before starting to rise from quarter 2 of 2019 and are unlikely to rise above 1.50% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

| **Financial Year** | **Rate** |
|---|---|
| 2018/19 | 0.75% |
| 2019/20 | 1.25% |
| 2020/21 | 1.50% |
| 2021/22 | 2.00% |
| Estimates after 2021/22 are not available | |

91. Policy rates are not expected to tighten for some considerable time, so some of the longer dated deals on offer continue to present some potential advantage.

92. The suggested budgeted investment earnings rates for returns on investments placed for periods of up to 3 months during each financial year for the next 3 years are as above. These rates, plus a small margin to stretch performance, have been used to estimate investment interest, over the strategy term.

93. The Council will pursue value for money with its investments and to measure this will use the 7 day London Interbank Bid Rate (LIBID) as its investment benchmark. We will also continue to use the investment benchmarking service offered by Link Asset Services Treasury Solutions, to compare our performance against our peers.

94. The overall balance of risks to economic growth in the UK is probably neutral.

95. The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively. The Bank of England's forward guidance should be a good indicator of where interest rates are going.

96. To bring balance to the portfolio funds generated through the Council's cash flow will be invested on the following basis:-

**Liquid Funds (approx. £20m)**

This part of the portfolio should be managed at around £20m. This allows for the payment of payroll on dates within the year when grants are delayed due to the 15th being on a weekend (June 2019, September 2019, December 2019, February 2020 and March 2020).

For example this part of the portfolio should be invested in:-

- bank deposits (main accounts, call accounts, notice accounts); and
- potentially Money Market Funds (subject to due diligence and selection process).

**Other Specified Investments (approx. £20m)**

Once the liquid funds are in place the Council should continue to invest in other slightly less liquid, but still secure assets, up to a maximum of 1 year. Examples of these assets are:-

- UK Government Treasury Bills, which will have a maturity date of less than 6 months (the maximum term).
- High quality Certificates of Deposit (rank equally with bank deposits re bail in) which provides access to a wider range of higher rated banks.
- High quality bonds issued by banks, with a maturity date of less than 1 year.
- Other Corporate Bonds that meet its minimum investment criteria, with a maturity of less than 1 year.
- Collateralised Deposits (repurchase/Reverse Repurchase) arrangements utilising its existing custodial arrangements with King & Shaxson brokers. This is a method of secured deposit with a bank.

Repo/Reverse Repo is accepted as a form of securitised lending and should be based on the GMRA 2000 (Global Master Repo Agreement). Should the counterparty not meet our senior unsecured rating then a 102% collateralisation would be required. The acceptable collateral is as follows:

Index linked Gilts
Conventional Gilts
UK Treasury bills
Corporate bonds

**Non-Specified Investments (Maximum £20m)**

Any core funds that are identified as being available longer term, e.g.reserves should continue to be invested in suitable longer term assets, examples of which are:-

- fixed deposits with banks.
- High quality Certificates of Deposit with a maturity date in excess of 12 months.
- High quality bonds issued by banks, with a maturity date in excess of 12 months.
- Other Corporate Bonds that meet its minimum investment criteria, with a maturity in excess of 12 months.

97. A full list of Specified and Non-Specified investments is in **Appendix E**.

98. Any new Non-Specified investment will require authorisation by the Councils Section 151 Officer, or Deputy. Details of minimum criteria and any additional due diligence required can also be seen in **Appendix E**.

99. Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

| | **Maximum principal sums invested > 1 year** | | | |
|---|---|---|---|---|
| **£m** | **2019/20** | **2020/21** | **2021/22** | **2022/23** |
| Principal sums invested > 1 year | £20m | £20m | £20m | £20m |

**End of year investment report**

100. At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

**Policy on the use of external service providers**

101. Following a competitive tender process the Council has re-awarded its Treasury Consultancy contract to Link Asset Services Treasury Solutions, as its external treasury management advisors until December 2021.

102. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

103. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

104. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. Training has been undertaken by members and further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

**Prudential Code Update/MHCLG revised guidance**

105. In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. All local authorities will be required to prepare an additional report (Capital Strategy report) from 2019/20 onwards, which is intended to provide the following:
    - a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
    - an overview of how the associated risk is managed.
    - the implications for future financial sustainability.

    The aim of this report is to ensure that all elected members fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy. The Council Capital Strategy will be approved in the Capital Strategy and Capital Budget 2019/20 – 2022/23 report.

106. In February 2018, MHCLG issued revised investment guidance to include non-treasury investments within the Treasury Management framework. The changes will increase the responsibilities of the Section 151 Officer, especially in respect of non-financial (non-treasury management) investments. This will be reflected in the next update to Financial Procedure Rules.

## OPTIONS CONSIDERED

107. Other options that have been considered and members need to be aware of, when compiling this report, that would affect the investments and borrowing decisions are as follows:-

| Options | Likely impact on Income and Expenditure | Likely impact on risk management |
|---|---|---|
| 1. Invest in a narrower range of institutions and shorter terms | Interest income will be lower | Reduced risk of losses from credit related defaults, but any single loss could be magnified. |
| 2. Reduce level of borrowing | Saving on debt interest is likely to exceed lost investment income. Premium to be paid if debt paid down (avoided if the reduction is done, as planned, by not replacing maturing debt). | Reduced investment balance leading to a lower impact in the event of default, however long term interest costs become less certain. |
| 3. Borrow additional sums at long term fixed interest rates | Debt interest costs will rise, this is unlikely to be offset by higher investment income | Reduced interest rate risk. But higher investment balance could lead to a higher impact in the event of a default. |
| 4. Increase level of borrowing | Additional cost of debt interest is likely to exceed additional investment income received. | Under-borrowing uses a combination of reserves and working capital. Any adverse changes to either could lead to cash not being available to fund expenditure. Leading to increased levels of borrowing. |
| 5. Borrow sufficient funds for under-borrowed position | Additional interest costs of up to £0.9m per annum. It should be noted that a proportion of the under-borrowed position has been used to prepay the pension contribution. | Reduced interest rate risk, but significantly higher costs. In addition the higher investment balance could lead to a higher impact in the event of a default. |

## REASONS FOR RECOMMENDED OPTION

108. Options 1 & 2 are the recommended option to maximize external interest savings without introducing unacceptable risk.

109. The strategy provides a good balance between our existing, predominantly long maturity profile, to produce additional savings to support front line budgets and service provision. Remaining under-borrowed also reduces the risk of losses from failed investments.

**IMPACT ON THE COUNCIL'S KEY OUTCOMES**

| | Outcomes | Implications |
|---|---|---|
| | **Doncaster Working:** Our vision is for more people to be able to pursue their ambitions through work that gives them and Doncaster a brighter and prosperous future;<br>• Better access to good fulfilling work<br>• Doncaster businesses are supported to flourish<br>• Inward Investment | Treasury Management impacts on all the outcomes; it makes sure that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet the Council's service activity in line with the Capital Programme. |
| | **Doncaster Living:** Our vision is for Doncaster's people to live in a borough that is vibrant and full of opportunity, where people enjoy spending time;<br>• The town centres are the beating heart of Doncaster<br>• More people can live in a good quality, affordable home<br>• Healthy and Vibrant Communities through Physical Activity and Sport<br>• Everyone takes responsibility for keeping Doncaster Clean<br>• Building on our cultural, artistic and sporting heritage | |
| | **Doncaster Learning:** Our vision is for learning that prepares all children, young people and adults for a life that is fulfilling;<br>• Every child has life-changing learning experiences within and beyond school<br>• Many more great teachers work in Doncaster Schools that are good or better<br>• Learning in Doncaster prepares young people for the world of work | |
| | **Doncaster Caring:** Our vision is for a borough that cares together for its most vulnerable residents;<br>• Children have the best start in life<br>• Vulnerable families and individuals have support from someone they trust<br>• Older people can live well and independently in their own homes | |
| | **Connected Council**:<br>• A modern, efficient and flexible workforce<br>• Modern, accessible customer interactions<br>• Operating within our resources and delivering value for money<br>• A co-ordinated, whole person, whole life focus on the needs and aspirations of residents<br>• Building community resilience and self-reliance by connecting community assets and strengths<br>• Working with our partners and residents to provide effective leadership and governance | |

## RISKS AND ASSUMPTIONS

110. This strategy report along with the Council's Treasury Management Practice Statements seeks to limit as far as possible the risks associated with the Council's Treasury function. However, the economic climate and financial markets are dynamic, and, can be prone to sharp unexpected movements. The Section 151 Officer and the Council's advisors will continually monitor the environment and act as necessary to limit risk and achieve best value for the Council.

111. Key risks and the actions taken to mitigate those risks are:-

a. The Council could be unable to borrow when funding is required due to adverse market conditions and/or budgetary restraints. This risk is mitigated by maintaining sufficient easily accessible funds. Further mitigating actions could be scaling back or re-profiling capital expenditure plans if necessary.

b. There could be an increased use of reserves and working capital which is currently used to finance the under borrowed position. This risk is mitigated by regular monitoring of the use of reserves and having a robust cash flow forecast, which is monitored on a daily basis.

c. Interest rates for borrowing could be higher than forecast. This risk is mitigated by regular monitoring of economic forecasts, consulting with the Councils treasury advisers and reducing the borrowing term. Other sources of borrowing will also be identified if possible.

d. The Council could receive a lower than forecast return on its investments. This risk is mitigated by regular monitoring of economic forecasts, consulting with the Councils treasury advisers and regular benchmarking. Investment strategies would then be adjusted by the Section 151 Officer, as appropriate.

e. An institute with whom the Council has investments could become insolvent. This risk is mitigated by only investing in financial institutions that meet the Councils minimum criteria. The Council will laso continually monitor the credit ratings of approved institutions and spread investments across a number of financial institutions and assets.

f. A financial institution may not repay an investment at maturity date due to an administration error (not insolvency). This is mitigated by maintaining accurate records of all investments placed, including confirmation from the counterparty. Adequate borrowing sources are available to cover any temporary cashflow shortfalls. In addition a proportion of the investments placed will always be instantly accessible.

## LEGAL IMPLICATIONS [Officer Initials SF Date 17/01/19]

112. The Council's Treasury Management activities are regulated by a variety of professional codes, statutes and guidance:-

a. Chapter 1 Part 1 of the Local Government Act 2003 (the Act) provides the powers to borrow as well as providing controls and limits on such capital finance and accounts;

b. the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, develops the controls and powers within the Act;

c. the Regulations require local authorities to have regard to the code of practice entitled the Prudential Code for Capital Finance in Local Authorities published by CIPFA when determining their affordable borrowing limit;

d. the Regulations also require local authorities to operate its overall treasury function having regard to the code of practice contained in the document entitled Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes published by CIPFA;

e. the Regulations require local authorities, for each financial year, to make a minimum revenue provision, which they consider to be prudent, in respect of the financing of capital expenditure incurred in that and previous years.

The Treasury Management function is included in the Chief Financial Officer's duties under Section 151 of the Local Government Act 1972 to administer the Council's financial affairs.

**FINANCIAL IMPLICATIONS [Officer Initials AT Date 02/01/2019]**

113. The treasury management budget required for 2019/20 has been reviewed and analysed over the following headings:

| | **General Fund £'m** | **HRA £'m** |
|---|---|---|
| Costs | | |
| Existing External Borrowing | 5.112 | 11.674 |
| Replacement External Borrowing | 0.547 | 0.774 |
| Pension Prepayment | 0.205 | 0.000 |
| New External Borrowing | 0.397 | 0.016 |
| **Total Borrowing Costs** | **6.261** | **12.464** |
| Other treasury management expenditure | 0.255 | 0.000 |
| **Total Costs** | **6.516** | **12.464** |
| Income | | |
| HRA recharge | -0.047 | 0.047 |
| Investment Interest | -0.315 | 0.000 |
| **Net Costs** | **6.154** | **12.511** |

The 2019/20 general fund budget was £6.572m for Treasury Management and after £0.418m of one-off savings that have been included in the 2019/20 revenue budget proposals, the £6.154m referenced in the above table is available for these costs. The HRA interest costs are included in the separate HRA budget report that will be presented to Full Council in March 2019. Specific financial information is included in the body of the report.

**HUMAN RESOURCES IMPLICATIONS [Officer Initials KG Date 11/01/2019]**

114. There are no specific Human Resources implications to this report

**TECHNOLOGY IMPLICATIONS [Officer Initials…PW Date…14/01/19 ]**

115. There are no technology implications in relation to this report.

**HEALTH IMPLICATIONS [Officer Initials RS Date 10/01/2019]**

116. Treasury management is unlikely to have direct health impacts. However both the borrowing and the investment strategies should take account of any indirect or unintended health impacts. These may arise from investing or borrowing in or from ventures that themselves have health impacts or are linked with other organisations that impact health. The most obvious case is that the council should protect its tobacco control work from the commercial and vested interests of the

tobacco industry by not accepting any partnerships, payments, gifts and services, monetary or in kind or research funding offered by the tobacco industry.

**EQUALITY IMPLICATIONS [Officer Initials CY Date 10/01/18]**

117. The Council must consider and have due regard to the three aims of the general equality duty, when developing and implementing the Treasury Management Strategy. By ensuring that the Treasury Management function is effective we can ensure that the right resources are available at the right time to enable the delivery of services. The equality implications for the revenue and capital budgets are detailed in the respective reports within the agenda papers.

**CONSULTATION**

118. The Council obtains advice from specialist organisations in respect of its treasury management activities. The impact of this is then assessed for its effect on the Council and appropriate action taken as necessary. Consultation has taken place with key financial managers and Executive Board.

119. This report has significant implications in terms of the following:

| | | | |
|---|---|---|---|
| Procurement | | Crime & Disorder | |
| Human Resources | | Human Rights & Equalities | |
| Buildings, Land and Occupiers | | Environment & Sustainability | |
| ICT | | Capital Programme | X |

**BACKGROUND PAPERS**

C.I.P.F.A. Code of Practice on Treasury Management (Revised 2017).
C.I.P.F.A. Treasury Management in the Public Services Guidance Notes 2018.
C.I.P.F.A. Prudential Code for Capital Finance in Local Authorities (Revised 2017).
Localism Act 2011.
MHCLG Statutory Guidance Local Government Investments (3rd edition), April 2018.
The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2010 [SI 2010/454].

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**APPENDIX A**

## THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2019/20 – 2022/23

1) The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

| Capital Expenditure | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|---|---|---|
| £m | Actuals | Estimates | | | | |
| Adults, Health & Wellbeing | 3,935 | 6,149 | 5,278 | 9,368 | 5,023 | 4,394 |
| Finance & Corporate | 2,078 | 13,049 | 19,469 | 16,334 | 12,500 | 12,500 |
| Learning & Opportunity – Children | 7,905 | 7,265 | 12,717 | 13,705 | 6,759 | 0 |
| Regeneration & Environment | 57,408 | 45,053 | 72,797 | 22,348 | 3,997 | 2,468 |
| **Non-HRA** | **71,326** | **71,516** | **110,261** | **61,755** | **28,279** | **19,362** |
| **HRA** | **30,400** | **37,628** | **27,080** | **27,816** | **27,798** | **27,490** |
| **TOTAL** | **101,726** | **109,144** | **137,341** | **89,571** | **56,077** | **46,852** |

2) **Affordability prudential indicators**

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

**a. Ratio of financing costs to net revenue stream**

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

| % | 2017/18 Actual | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate | 2022/23 Estimate |
|---|---|---|---|---|---|---|
| Non-HRA | 7.14% | 8.05% | 7.89% | 7.42% | 6.42% | 6.49% |
| HRA | 15.83% | 16.04% | 17.32% | 16.93% | 16.37% | 16.00% |

The estimates of financing costs include current commitments and the proposals in this budget report.

**b. HRA ratios**

| | 2017/18 Actual | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate | 2022/23 Estimate |
|---|---|---|---|---|---|---|
| **HRA debt cap £k** | **269,904** | **0** | **0** | **0** | **0** | **0** |
| **HRA debt £k** | 243,223 | 244,267 | 266,063 | 266,063 | 266,063 | 266,063 |
| **HRA revenues £k** | 75,154 | 74,547 | 73,727 | 72,223 | 73,498 | 74,994 |
| **Ratio of debt to revenues %** | 30.90% | 30.52% | 27.71% | 27.15% | 27.62% | 28.19% |

| | 2017/18 Actual | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate | 2022/23 Estimate |
|---|---|---|---|---|---|---|
| **HRA debt £k** | 243,223 | 244,267 | 266,063 | 266,063 | 266,063 | 266,063 |
| **Number of HRA dwellings** | 20,170 | 20,100 | 19,958 | 19,783 | 19,608 | 19,433 |
| **Debt per dwelling £** | 12,059 | 12,153 | 13,331 | 13,449 | 13,569 | 13,691 |

4. **Maturity Structure of Borrowing**

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

| £m | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|---|---|
| **Interest rate exposures** | | | | | |
| | **Upper** | **Upper** | **Upper** | **Upper** | **Upper** |
| Limits on fixed interest rates based on net debt | 100% | 100% | 100% | 100% | 100% |
| Limits on variable interest rates based on net debt | 30% | 30% | 30% | 30% | 30% |
| **Maturity structure of fixed interest rate borrowing 2019/20** | | | | | |
| | | **Lower** | **Upper** | **Actuals £k** | **Actuals %** |
| Under 12 months | | 0% | 30% | 82,690 | 15.72% |
| 12 months to 2 years | | 0% | 50% | 72,602 | 13.80% |
| 2 years to 5 years | | 0% | 50% | 20,288 | 3.86% |
| 5 years to 10 years | | 0% | 75% | 23,253 | 4.42% |
| 10 years and above | | 10% | 95% | 327,307 | 62.20% |
| **Total** | | | | **526,141** | **100.00%** |
| **Maturity structure of variable interest rate borrowing 2019/20** | | | | | |
| | | **Lower** | **Upper** | **Actuals £k** | **Actuals %** |
| Under 12 months | | 0% | 30% | 0 | 0 |
| 12 months to 2 years | | 0% | 50% | 0 | 0 |
| 2 years to 5 years | | 0% | 50% | 0 | 0 |
| 5 years to 10 years | | 0% | 75% | 0 | 0 |
| 10 years and above | | 10% | 95% | 0 | 0 |
| **Total** | | | | **0** | **0%** |

**APPENDIX B**

**Minimum Revenue Position (MRP) Policy Statement**

The Council has an annual duty to charge an amount of MRP to the General Fund Revenue Account which it considers to be a prudent provision. The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by council tax payers. The guidance on MRP allows different options for the calculation of MRP as below:

1) Regulatory method
2) CFR method
3) Asset Life method, using either
   a) Equal instalment method
   b) Annuity method
4) Depreciation method

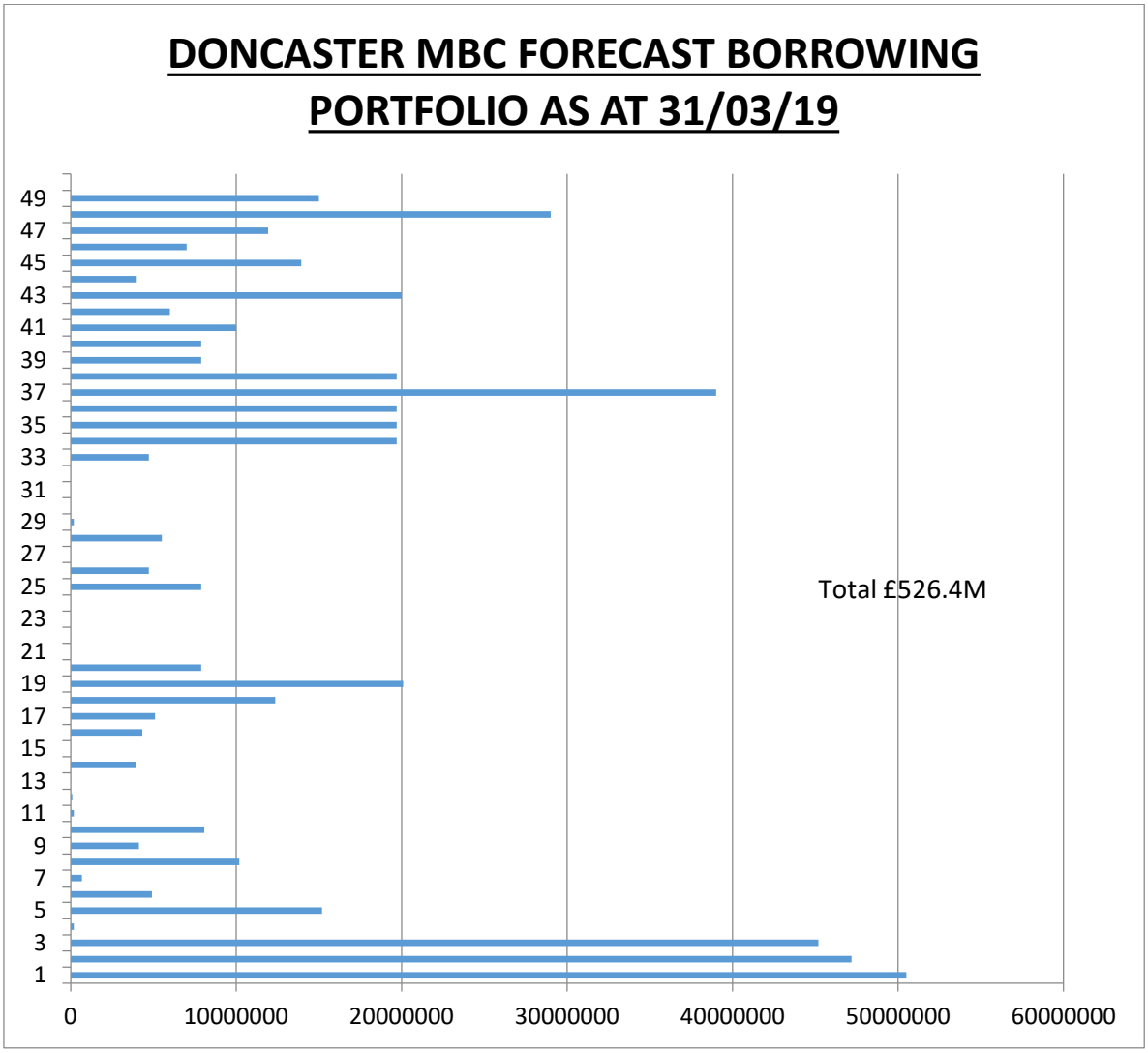
**Doncaster Council 2019/20 MRP Policy**

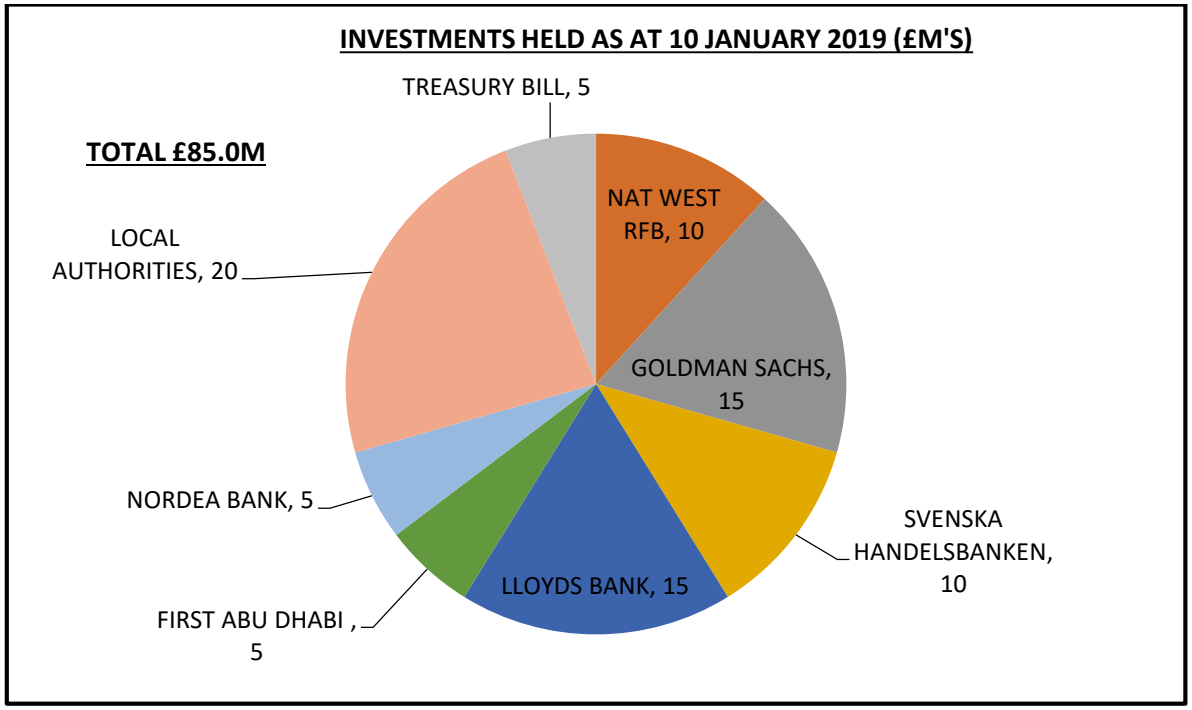
The Council adopts the most appropriate method of calculating and charging MRP for the specific asset. Methods used include either:

- **Asset Life method – Equal instalment method** (option 3a); or
- **Asset Life method - Annuity method** (option 3b); or
- **Depreciation method** (option 4).

**MRP Overpayments** - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2019 the total MRP overpayments are estimated to be £33.986m.

**APPENDIX C**


DONCASTER MBC FORECAST BORROWING PORTFOLIO AS AT 31/03/19
49
47
45
43
41
39
37
35
33
31
29
27
25
23
21
19
17
15
13
11
9
7
5
3
1
0
10000000
20000000
30000000
40000000
50000000
60000000
Total £526.4M


INVESTMENTS HELD AS AT 10 JANUARY 2019 (£M'S)
TOTAL £85.0M
TREASURY BILL, 5
NAT WEST RFB, 10
GOLDMAN SACHS, 15
SVENSKA HANDELSBANKEN, 10
LLOYDS BANK, 15
FIRST ABU DHABI , 5
NORDEA BANK, 5
LOCAL AUTHORITIES, 20

**APPENDIX D**

**Interest Rate Forecasts**

| Bank Rate | Now | Mar 2019 | Mar 2020 | Mar 2021 |
|---|---|---|---|---|
| Actual JAN 19 | 0.75% | - | - | - |
| Link Asset Services view. | 0.75% | 0.75% | 1.25% | 1.50% |
| Capital Economics(CE) | 0.75% | 0.75% | 1.70% | - |
| 5Yr PWLB Rate | PWLB rates and forecasts below take into account the 0.20% Certainty rate deduction effective as of 01/11/12. | | | |
| Actual JAN 19 | 1.70% | - | - | - |
| Link Asset Services view. | 1.70% | 2.10% | 2.30% | 2.60% |
| Capital Economics(CE) | 1.70% | 2.03% | 2.70% | - |
| 10Yr PWLB Rate | PWLB rates and forecasts below take into account the 0.20% Certainty rate deduction effective as of 01/11/12. | | | |
| Actual JAN 19 | 2.26% | - | - | - |
| Link Asset Services view. | 2.26% | 2.50% | 2.80% | 3.00% |
| Capital Economics(CE) | 2.26% | 2.43% | 3.05% | - |
| 25Yr PWLB Rate | PWLB rates and forecasts below take into account the 0.20% Certainty rate deduction effective as of 01/11/12. | | | |
| Actual JAN 19 | 2.61% | - | - | - |
| Link Asset Services view. | 2.61% | 2.90% | 3.20% | 3.40% |
| Capital Economics(CE) | 2.61% | 2.96% | 3.53% | - |
| 50Yr PWLB Rate | PWLB rates and forecasts below take into account the 0.20% Certainty rate deduction effective as of 01/11/12. | | | |
| Actual JAN 19 | 2.46% | - | - | - |
| Link Asset Services view. | 2.46% | 2.70% | 3.00% | 3.20% |
| Capital Economics(CE) | 2.46% | 2.78% | 3.40% | - |

**APPENDIX E**

## TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT OPTION 1

**SPECIFIED INVESTMENTS**: All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' quality criteria where applicable.

**NON-SPECIFIED INVESTMENTS**: These are any investments which do not meet the specified investment criteria. A maximum of 30% of the investment pool will be held in aggregate in non-specified investment

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

### SPECIFIED INVESTMENTS:

(All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable)

| | Minimum 'High' Credit Criteria | Maximum % of total investments or maximum Amount per institution | Max. maturity period |
|---|---|---|---|
| Term deposits and other instruments with local authorities | N/a | £30m (maximum of £5m per authority) | 12 months |
| Term deposits with banks and building societies | Yellow<br>Purple<br>Orange<br>Red<br>Green<br>No Colour | £50m<br>£40m<br>£30m<br>£20m<br>£10m<br>nil | 12 months<br>12 months<br>12 months<br>6 months<br>100 days<br>Not for use |
| Term Deposits with UK part nationalised banks | Blue | £30m | 12 months |
| Certificates of Deposit or corporate bonds with banks and building societies | Yellow<br>Purple<br>Orange<br>Blue<br>Red<br>Green<br>No Colour | £50m<br>£40m<br>£30m<br>£30m<br>£20m<br>£10m<br>nil | 12 months<br>12 months<br>12 months<br>12 months<br>6 months<br>100 days<br>Not for use |
| Bonds issued by multilateral development banks | UK sovereign rating | 100% | 12 months |
| UK Government Gilts | UK sovereign rating | 100% | 12 months |
| UK Government Treasury Bills | UK sovereign rating | 100% | 6 months |

| | | | |
|---|---|---|---|
| Debt Management Agency Deposit Facility | -- | 100% | 6 months |
| Collateralised deposit (Reverse Repurchase) (see note 2) | UK sovereign rating | 100% | 12 months |
| Bond issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail | UK sovereign rating | 100% | 12 months |
| Sovereign bond issues (other than the UK govt) | UK sovereign | 100% | 12 months |
| Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): - | | | |
| Government Liquidity Funds | AAA MMF rating | 100% | Liquid |
| Money market funds (CNAV/LVNAV or VNAV) | AAA MMF rating | 100% | Liquid |
| Enhanced Cash Funds with a credit score of 1.25 | Fitch rating Short term F1, long Term A- or equivalent | 100% | Liquid |
| Enhanced Cash Funds with a credit score of 1.5 | Fitch rating Short term F1, long Term A- or equivalent | 100% | Liquid |
| Bond Funds | Fitch rating Short term F1, long Term A- or equivalent | 100% | Liquid |
| Gilt Funds | Fitch rating Short term F1, long Term A- or equivalent | 100% | Liquid |

Note 1. If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

N.B. buy and hold may also include sale at a financial year end and repurchase the following day in order to accommodate the requirements of the Accounting Code of Practice.

Note 2. As collateralised deposits are backed by collateral such as UK Gilts, corporate bonds, etc. this investment instrument is regarded as being a AA rated investment as it is equivalent to lending to the UK Government.

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

**NON-SPECIFIED INVESTMENTS**: A maximum of 30% will be held in aggregate in non-specified investment

Maturities in excess of 1 year

| | Minimum 'High' Credit Criteria | Maximum % of total investments or maximum Amount per institution | Max. maturity period |
|---|---|---|---|
| Term deposits and other instruments with local authorities | N/a | £20m (maximum of £5m per authority) | 5 years |
| Term deposits with banks and building societies | Yellow<br>Purple<br>Orange<br>Red<br>Green | £50m<br>£40m<br>£30m<br>£20m<br>£10m | 5 years<br>4 years<br>3 years<br>2 years<br>1 year |
| Term Deposits with UK part nationalised banks | Blue | £30m | 5 years |
| Certificates of Deposit or corporate bonds with banks and building societies | Yellow<br>Purple<br>Orange<br>Blue<br>Red<br>Green | £50m<br>£40m<br>£30m<br>£30m<br>£20m<br>£10m | 5 years<br>4 years<br>3 years<br>5 years<br>2 years<br>1 year |
| Bonds issued by multilateral development banks | UK sovereign rating | £5m | 5 years |
| UK Government Gilts | UK sovereign rating | 100% | 50 years |
| Collateralised deposit (Reverse Repurchase) | UK sovereign rating | 100% | 5 years |
| Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail | UK sovereign rating | £20m | 10 years |
| Commercial Paper Other | Fitch rating Short term F1, long Term A- or equivalent | £20m | 10 years |
| Corporate Bonds | Fitch rating Short term F1, long Term A- or equivalent | £20m | 10 years |
| Sovereign bond issues (other than the UK govt) | UK sovereign | £20m | 5 years |
| Bond Funds | Fitch rating Short term F1, long Term A- or equivalent | £20m | 10 years |
| Gilt Funds | Fitch rating Short term F1, long Term A- or equivalent | £20m | 10 years |

| | Minimum 'High' Credit Criteria | Maximum % of total investments or maximum Amount per institution | Max. maturity period |
|---|---|---|---|
| Municipal Bonds | UK sovereign rating | £5m | 5 years |
| Floating Rate Notes | Fitch rating Short term F1, long Term A- or equivalent | £5m | 5 years |
| Covered Bonds | Fitch rating Short term F1, long Term A- or equivalent | £5m per bond | 10 years |
| Unrated Bonds | **Non-rated internal due diligence | £5m per bond | 10 years |
| Loans to Third Parties | **Non-rated internal due diligence | £5m | 50 years |
| Churches, Charities and Local Authorities (CCLA) Property Fund | **Non-rated internal due diligence | £5m | 10 years |
| Property Funds* | **Non-rated internal due diligence | £5m | 10 years |

*The use of these instruments can be deemed capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken.

**Due Diligence will include the following, if available, however the list isn't intended to be exhaustive:-

Capitalisation of the organisation,
Revenue profits and margin trends,
Competitors and industry,
Valuation multiples e.g. price/earnings ratio,
Management and share ownership and track records,
Balance sheet analysis,
Examination of future plans and expectations,
Stock options and dividend policy.

## APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings equivalent to the UK or higher (based on two out of three ratings from the agencies Fitch, Moody's and S&P) and have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services Treasury Solutions credit worthiness service.

| **AAA** | **AA+** | **AA** |
|---|---|---|
| Australia, Canada, Denmark | Finland | Abu Dhabi (UAE) |
| Germany, Luxembourg, Netherlands, | USA | France |
| Norway, Singapore, Sweden | | Hong Kong |
| Switzerland | | UK |

**APPENDIX F**

# TREASURY MANAGEMENT ANNUAL REPORT YEAR ENDED 31ST MARCH, 2018

## SUMMARY

1. During the year the Councils borrowing and investments have been managed in line with the treasury management strategy set out for 2017/18 which was approved by Council on 02/03/2017.

2. The borrowing strategy was a continuation of the recent successful strategy that had generated large interest savings. The savings were generated in two ways, being under borrowed and borrowing short term. As interest rates were forecast to increase gently over the term of the strategy we proposed to continue to borrow short term rather than lock into the historically low long term interest rates. The strategy was forecast to deliver £2.23m savings, which was transferred out as part of the budget setting process.

3. Thanks to the continued low borrowing interest rates the strategy led to a Treasury Management break even for 2017/18. The Council was £80m under-borrowed which is a key contributor to the out turn. If the £80m was borrowed at 2% there would be an additional external interest cost of £1.6m per annum.

4. By minimising external borrowing during the year savings were delivered, whilst at the same time minimising the risk of failure by a third party to meet its contractual obligations under an investment, loan or other commitment.

5. The Council operated within the financial limits set out in the Treasury Strategy and the Borrowing limits and complied with the relevant Regulations and guidance.

## BACKGROUND

6. The revised Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009 was adopted by this Council on 2nd February, 2010, and the Council fully complies with its requirements. This report meets the requirements of the code.

7. During 2017/18 the minimum reporting requirements were that the Council should receive the following reports:

    a. An annual Treasury Management Strategy in advance of the year (Council 02/03/17).

    b. A mid-year (minimum) Treasury Management Strategy update report (Included in quarterly Finance/Performance Monitoring Report).

    c. An annual review following the end of year describing the activity compared to the strategy (this report).

8. Regulations place responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

9. Treasury Management in this context is defined as:-

    "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control

of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

10. This annual report comments on the delivery of:-

- the Council's Treasury Management position as at 31st March, 2018;
- the strategy for 2017/18;
- the forecast and actual economic activity and interest rates;
- the borrowing activity for 2017/18;
- the investment activity for 2017/18;
- Compliance with treasury limits.

**Treasury Portfolio Position**

11. The debt and investment position at the beginning and end of the financial year were as follows:-

| | **As At 01.04.17 £'m** | **Average Interest Rate %** | **As At 31.03.18 £'m** | **Average Interest Rate %** |
|---|---|---|---|---|
| Fixed Rate | 441.1 | | 528.9 | |
| Variable Rate | 0.0 | | 0.0 | |
| **Total Debt** | **441.1** | **4.02** | **528.9** | **3.66** |
| **Investment** | **28.5** | **0.67** | **57.8** | **0.61** |

**2017/18 Economic Activity**

**Forecast**

12. The treasury management strategy approved by Council in March 2017 contained a forecast that interest rates for 2017/18 anticipated low but rising Bank Rate (starting during 2019), and gradual rises in medium and longer term fixed borrowing rates during 2017/18.It was expected that the recovery for the global economy would be long and drawn out, with many bumps along the way, which was expected to keep interest rates at the same low levels for at least 12 months.

**Outturn**

13. The financial year 2017/18 continued the challenging investment environment of previous years, namely low investment returns, although levels of counterparty risk had subsided somewhat. In this scenario, the treasury strategy was to continue to postpone borrowing to avoid the cost of holding higher levels of investment and to reduce counterparty risk. In November the Bank of England increased bank base rate to 0.5% from 0.25%.

**Borrowing Activity**

**Strategy**

14. The amount of new borrowing for 2017/18 was estimated to be £44.4m, which included £17m of maturing loans which required refinancing. The primary strategy was for borrowing activity to be driven by cash flow and to minimise external debt

interest costs by borrowing over shorter terms. The forecast of gentle interest rate increases minimised the refinancing risk.

15. The Council was maintaining an under-borrowed position. This meant that the level of actual debt was below the Capital Financing Requirement (the amount the authority needs to borrow for Capital purposes) and therefore the Council had to use internal resources such as ear-marked reserves, unapplied grants and capital receipts, cash balances, etc. to fund some of its unfinanced capital expenditure.

16. This strategy was beneficial because external debt interest payments are minimised and funds available for investments are reduced at a time when investment returns are low and financial institution risk was moderately high.

17. This position cannot be sustained in the long term. At some point the reserves and balances will be needed and as a consequence the need to borrow will increase. This could be short-term or long-term borrowing. The Council have used short-term borrowing opportunities from other authorities as they have restricted lending lists which means they lend at rates much lower than market rates.

**Outturn**

18. During the 2017/18 financial year £101.5m in new external borrowing was taken, this was higher than the original estimate of £44.4m for the following reasons:-

    - £56.5m of additional borrowing was approved during the financial year, to generate additional savings for the Council by prepaying part of its pension liability at a discounted rate.

    - The Capital Programme borrowing requirement was rounded up to £45m to allow suitable loans to be taken.

19. The timing of borrowing was in line with the Councils cash flow.

20. Short term loans were taken from other local authorities at interest rates ranging from 0.4% to 1.1%.

21. The Pension Prepayment, decision reference, FCS 196, was forecast to save the Council £2.485m after interest costs of £1.105m. By using short term loans the interest costs have been reduced to £0.856m providing additional savings for the Council.

**Debt Rescheduling**

22. Debt rescheduling relates to the early repayment of loans in order to generate a revenue saving or change to the structure of the debt maturity profile.

23. On 1st November, 2007, the PWLB introduced a two tier rate system, which effectively made it more expensive for Councils to repay debt. This precluded any rescheduling opportunities being undertaken during the 2017/18 financial year, which was outlined and planned as part of the strategy; however this situation is constantly reviewed in conjunction with our external Treasury Advisers.

**Investment Activity**

**Strategy**

24. The Council's in-house managed funds are mainly cash flow derived such as grants and other income received to be spent later. Therefore investments will be made with reference to the balances and cash flow requirements and the outlook for interest rates.

**Outturn**

25. The result of the investment activity was as follows:-

| | |
|---|---|
| Average investment balance throughout the year | £59.1m |
| Rate of return | 0.61% |
| Benchmark Rate | 0.34% |
| Investment balance as at 31/03/18 | £57.8m |

26. At £327k actual interest earned was £288k below target, due to minimising investment balances by delaying borrowing and by interest rates not increasing as previously forecast at budget setting.

27. The investment portfolio as at 31st March, 2018 is summarised in **Appendix 1.**

**Compliance with Treasury Limits**

28. During the year the Council operated within the limits set out in the Treasury Strategy, Policy and Practice statements and the Treasury Management Prudential Indicators included in **Appendix 1.**

**RISKS**

29. By its very nature the treasury management function can expose the Council to certain risks, whether these are with respect to the interest rate achievable on new borrowings, or the risk associated with placing an investment with a third party. The Council have in place policies and strategies in order to manage and mitigate these risks.

30. The primary overriding aims are the protection of capital investment sums, and the maintenance of a long term, low fixed rate debt portfolio. In achieving this, the Council abides by the Code of Practice, and, reviews procedures to ensure best practice is implemented at all times to control the risk and achieve the aims.

**BUDGET**

31. The Council's budget for 2017/18 included the revenue costs of the treasury management activities. The outturn compared with the budget is shown below:

| | **Budget 2017/18 £m** | **Actuals 2017/18 £m** |
|---|---|---|
| External Borrowing | 6.916 | 6.592 |
| Other TM Costs | 0.124 | 0.100 |
| **Total Cost** | **7.040** | **6.692** |
| **Income** | | |
| Investment Interest | -0.623 | -0.275 |
| **Net Costs** | **6.417** | **6.417** |
| | | |
| **HRA Borrowing** | | **11.801** |

**APPENDIX 1**

**PRUDENTIAL INDICATORS 2017/18**

| | Estimate £'000s | Actual £'000's |
|---|---|---|
| **Capital expenditure** | | |
| Non - HRA | 85.572 | 54.870 |
| HRA | 33.600 | 33.083 |
| Total | 119.172 | 87.953 |
| | | |
| **Capital Financing Requirement (CFR) as at 31/03/18** | | |
| Non-HRA | 273.067 | 271.797 |
| HRA | 267.069 | 266.025 |
| Total | 540.136 | 537.822 |
| | | |
| **Ratio of Financing Costs to net revenue stream** | | |
| Non-HRA | 6.12% | 6.00% |
| HRA | 16.05% | 15.87% |
| | | |
| **Authorised Limit for External Debt** | | |
| (this limit allows authorities to take borrowing In advance of need as required) | 587.676 | 587.676 |
| | | |
| **Operational Boundary for External Debt** | | |
| (this is a key management tool for in-year monitoring) | 546.649 | 546.649 |
| | | |
| **Actual External Debt as at 31st March 2018** | | |
| **Upper Limit for Fixed Interest Rate Exposure** | 100% | 100% |
| **Upper Limit for Variable Rate Exposure** | 30% | 0% |

The following table shows the maturity profile of our existing external debt.

| **Doncaster Council Debt Portfolio and Maturity Profile as at 31 March 2018** | | | | |
|---|---|---|---|---|
| | Upper Limit % | Lower Limit % | Actual % | Actual £'M |
| Under 12 Months | 30 | 0 | 17.15 | 90.687 |
| 12 to 24 Months | 50 | 0 | 7.03 | 37.187 |
| 24 Months to 5 Years | 50 | 0 | 8.61 | 45.560 |
| 5 Years to 10 Years | 75 | 0 | 5.29 | 27.982 |
| 10 Years to 20 Years | 95 | 10 | 10.21 | 53.988 |
| 20 Years to 30 Years | | | 3.46 | 18.325 |
| 30 Years and above | | | 48.25 | 255.180 |
| Total | | | 100 | 528.909 |

The following table shows the individual investments as at 31st March 2018

| **Doncaster Council Investment Portfolio as at 31st March 2018** | | |
|---|---|---|
| **Institution Name** | **Maximum Limit £'M** | **Balance £'M** |
| Lloyds Banking Group | 40 | 10.0 |
| RBS | 30 | 24.8 |
| Rabobank | 30 | 3.0 |
| Goldman Sachs | 20 | 15.0 |
| Svenska Handelsbanken | 30 | 5.0 |
| **Total** | | **57.8** |

Council investments are made with institutions on our approved list. This is almost exclusively other banks and major financial institutions. The money invested is usually quite short term (up to 1 year) and is placed in order to gain some interest whilst we may have excess funds, following receipt of income/grants etc. until we need to pay those sums out.